

RESERVES POLICY

REVIEWED: November 2021

ADOPTED BY BOARD: (IMPORTANT – This policy is to remain 'draft' pending ratification or being superseded by a Diocese policy due January 2021)

NEXT REVIEWED: November 2021

DRAFT - NOT FOR APPROVAL/CIRCULATION

Bishop Bewick Catholic Education Trust

Context

As a Multi Academy Trust, the Bishop Bewick Catholic Education Trust operates as one organisation. The Trust's reserves are the totality of each individual academy's reserves, together with any central MAT reserves accrued from underspend on central Trust functions and Leadership Group agreed projects.

Academies are not permitted to borrow funds. This constraint represents a risk to all academies in relation to financial planning and monitoring. One of the ways in which academies can mitigate this risk is through the effective management of reserves ("balances"), which provide additional, temporary, funding streams should there be a delay in grant receipts or a sudden unforeseen increase in expenditure.

Setting a reserves policy helps inform the way in which the Trust can manage its staffing levels, asset plans and meet any short term in-year deficits within specific academies. This reserves policy allows academy leaders to plan over the longer term and encourages income generation and prudent budget setting.

Policy Aims

The Trust has the following policy aims regarding reserves:

- To ensure the Trust and its academies remain financially viable and sustainable. To this end, maintaining the necessary level of reserves to meet planned cyclical needs, together with sufficient contingency to deal with most unforeseen demands
- To ensure each individual school within the Trust recognises its responsibility to manage its resources effectively. In doing so, each academy takes all reasonable actions necessary to enable it to set a balanced annual budget and maintain appropriate reserves.
- To ensure the level of reserves within academies do not become "excessive". Safeguarding against the risk of an unnecessary denial of opportunity or support to children who are in education today.¹

Appropriate Trust Reserves

There is currently no specific level of Trust reserves suggested by the ESFA. In the past, free reserve balances (of restricted and unrestricted reserves, but not including pension reserves) in schools totaling over 12% of grant funding were subject to additional scrutiny and potential claw back.

One of the main financial risks to the Trust is managing its short-term cash flow. To mitigate this risk, maintaining an appropriate free reserve balance would act as a contingency to meet unforeseen financial pressures or demands. It is felt that an appropriate free reserve balance for this purpose would equate to one month's worth of Trust expenditure (both in terms of

¹ ESFA guidance states "Trusts should use their allocated GAG funding for the full benefit of their current pupils. If a trust has a substantial surplus they should have a clear plan for how it will be used to benefit their pupils, for example a long-term capital project."]

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salaries and invoices). Approximately 8% of total incoming resources. Each individual school should aim for this target level of reserves.

For illustrative purposes:

Primary Academy A, income £850k, threshold of free reserves £68k

Secondary Academy B, income £6.5m, threshold of free reserves £520k

It must be noted that the profile of the reserves of academies joining the Trust do not necessarily meet the exemplified thresholds shown. However, the required threshold (at 8% of total income) of Trust reserves at circa £5m are available from the combined reserves balances.

Reserves associated with an individual academy

All BBCET academies retain ownership of their reserves. On joining the Trust academy reserve balances are recorded within the accounting systems of the Trust. The BBCET accounting system ensures the school's annual income and expenditure thereafter directly affects their reserve balance each year. This may be positive or negative change depending upon the actual in-year expenditure and income. Where an academy joins BBCET with a deficit budget and/or has no reserves, the COO and central finance team will work with the leadership of the academy to establish a financial plan, ensuring the budgetary situation is reversed quickly, so that within 2 – 3 years of academy status reserves can be established.

It is crucial for individual academies to retain ownership of their reserve balances, as this encourages the leadership teams within schools to be creative in terms of income generation, and motivated to monitor and implement appropriate short/medium spending/saving decisions.

Whilst an academy's reserve balance remains within expected parameters, they will have autonomy in budget setting (subject, as per the SOD, to the Trust Board's approval). However, the Trust's COO/CFO retains overall oversight of each academy's budget and contribution to total reserves to ensure these remains within tolerance.

High reserve balances of individual academies

Academies should, within reason, spend their annual funding on the needs of current students in their care. It is not considered appropriate for an academy to build up significant reserves unless there is a specific project that requires savings accumulated over several years.

If an individual academy's reserves are in excess of 10% of their total incoming resources, the Trust's COO/CFO will require the academy's Headteacher and Local Governing Committee to supply a rationale for this to be reviewed by the Finance Committee. Possible reasons for such reserves may include:

- The academy may be seeking to accumulate reserves to fund/part-fund necessary capital works that may otherwise be unfunded
- The academy may be seeking to build a reserve balance to meet part of their longer-term projected commitments (e.g. they may know funding pressures/costs shown in years 2 or 3 of their 3 year budget).

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Low reserve balances of individual schools

Low reserve balances at any school highlight a potential financial vulnerability and must be avoided. It is incumbent upon each Headteacher and Local Governing Committee to prepare and propose an annual budget that ensures their balance remains within reasonable parameters. An annual deficit budget is only acceptable if it can be supported (balanced) by the drawdown of useable reserves (within reasonable parameters and the 3-year budget plan that shows academy reserve balances remaining within those parameters).

Should any individual academy propose a budget that is in annual deficit (before the use of reserve balances), they will be expected to provide a detailed commentary alongside the proposed budget and will be expected to cooperate with any additional support and/or challenge the CFO/COO/CEO feels necessary.

Should the financial position of an academy appear, in the opinion of the Trust Board, unsustainable, they may withdraw the academy's budget delegation. In such circumstances, the central Trust team will manage the academy's budget until financial sustainability is restored and any relevant support/training has been put in place.

Accrual of Central Trust Reserves

It is likely that some Central Trust reserves may begin to accrue over time from underspends of funds allocated to the running of the central services and where projects agreed by the Leadership Group do not use their full allocation of annual resource. The level of Trust contribution to services and the extent of central Trust reserves will be managed by the CEO and COO and reviewed annually by the Trust's Finance committee.

The annual Central Services financial review will look at projected central services costs, together with Leadership Group priorities which have been identified for the year ahead. This may result in an increase, or decrease, to the level of Trust contribution for the next financial year.

In years where the accumulated reserves of the Central Trust are not required, the Trust Board may at its discretion, redistribute these to the reserves (pro-rata) of academies.

Policy Review Date

The reserves policy will be formally reviewed by the Finance Committee at least every 3 years.